4972/990/inst

1990

Department of the Treasury
Internal Revenue Service

Instructions for Form 4972

Tax on Lump-Sum Distributions

(Section references are to the Internal Revenue Code.)

General Instructions

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	33 min.
Learning about the law or the form	25 min.
Preparing the form	1 hr., 44 min.
Copying, assembling, and sending the form to IRS	35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both IRS and the Office of Management and Budget at the addresses listed in the Instructions for the tax return with which this form is filed.

Purpose of Form

If you received a qualifying lump-sum distribution from a qualified profit-sharing or retirement plan, all or part of the distribution is generally taxable. If you meet the requirements under **Who Can Use the Form**, you can use Form 4972 to figure your tax by special methods. The use of these methods may result in a tax that is smaller than the amount you would pay by reporting the taxable amount of the distribution as ordinary income on your tax return.

Caution: *If you received an early distribution (before age 59½) from a qualified retirement plan, you may have to pay an additional tax. File* **Form 5329,** *Return for Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts, to pay this tax. See the Instructions for Form 5329 and* **Pub. 575,** *Pension and Annuity Income (Including Simplified General Rule).*

Who Can Use the Form

You can use Form 4972 if you received a qualifying distribution in 1990 and meet the age requirement. Also, you must meet the conditions explained on page 2 under **How Often You Can Choose.**

If you were an employee and received the distribution, **you must have been born before 1936; otherwise you cannot use this form.** If you received a qualifying distribution as a beneficiary after an employee's death, the deceased employee must have been born before 1936 and at least 50 years old at the date of death for you to use this form for that distribution.

Distributions to Alternate Payees.—If you are the spouse or former spouse of an employee who was born before 1936 (and, if deceased, was at least 50 years old at the date of death), and you received a qualifying lump-sum distribution as an alternate payee under a qualified domestic relations order, you can use Form 4972 to figure the tax on that income.

If the distribution is a qualifying distribution, you can use Form 4972 to make the 20% capital gain election and elect either the 5- or 10-year averaging method to figure your tax on the distribution. See **How to Use the Form** on page 2.

Distributions That Qualify for the 20% Capital Gain Election or for 5- or 10-Year Averaging

The distribution is a qualifying lump-sum distribution **ONLY IF ALL SIX** of the following conditions are met:

1. The distribution came from a qualified pension, profit-sharing, or stock bonus plan.
2. The distribution came from all the employer's qualified plans of one kind (pension, profit-sharing, or stock bonus) in which the employee had funds.
3. The distribution was for the **full** amount credited to the employee. For this purpose, the full amount credited to the employee does not include the accumulated deductible employee contributions under the plan.
4. The distribution was paid within a single tax year.
5. The employee participated in the plan for 5 or more tax years before the tax year of distribution, unless the distribution was paid because the employee died.
6. The distribution was paid in **any** of the following cases:
   - **a.** The employee died.
   - **b.** The employee was age 59½ or older at the time of the distribution.
   - **c.** The employee, who was a common-law employee, quit, retired, was laid off, or was fired. A common-law employee is anyone who performs services that an employer has the right to control (what will be done and how) and whom the employer has the right to fire.
   - **d.** The self-employed individual or owner-employee became disabled. An individual is considered disabled if he or she is unable to engage in any substantial gainful activity as a result of a medically determinable physical or mental impairment that is expected to result in death or to be of long-continued and indefinite duration.

Distributions That Do Not Qualify for the 20% Capital Gain Election or for 5- or 10-Year Averaging

The following distributions are not qualifying lump-sum distributions and **do not** qualify for the 20% capital gain method or the 5- or 10-year averaging method:

1. Distributions received if the plan participant was born after 1935 **or** died before age 50.
2. U.S. Retirement Bonds distributed with the lump sum.
3. Any distribution made before the employee had been a participant in the plan for 5 tax years before the tax year of the distribution, **unless it was paid because the employee died.**
4. The current actuarial value of any annuity contract included in the lump sum (the payer's statement should show this amount, which you should use only to figure tax on the ordinary income part of the distribution).
5. Any distribution to a 5% owner that is subject to penalties under section 72(m)(5)(A).
6. A distribution, described in section 402(a)(6)(E), from a defined benefit pension plan maintained by an employer, if the recipient elected after 1978, to roll over a total distribution

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from the employer's money purchase plan into an Individual Retirement Arrangement (IRA) or another qualified plan.

7. A distribution from an IRA.

8. Redemption proceeds of bonds rolled over tax free to a qualified pension plan, etc., from a qualified bond purchase plan.

9. A distribution from a qualified pension or annuity plan when the employee or the employee's surviving spouse received a partial distribution from the same plan (or another plan of the employer required to be aggregated for the lump-sum distribution rules), and the proceeds of the previous distribution were rolled over tax free to an IRA.

10. A corrective distribution of excess deferrals, excess contributions, or excess aggregate contributions.

11. A lump-sum credit or payment from the Federal Civil Service Retirement System.

12. A distribution from a qualified pension or annuity plan if any portion of the distribution is rolled over tax free to another qualified pension or annuity plan or IRA.

How To Use the Form

If you qualify to use Form 4972, attach it to Form 1040 (individuals) or Form 1041 (estates or trusts). The payer should have given you a **Form 1099-R,** Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Insurance Contracts, Etc., or other statement that shows the separate amounts to use in completing the form. The following choices are available to you:

1. 20% Capital Gain Election. If there is an amount shown on Form 1099-R, Box 3 (capital gain), you can use Part II of this form to make the 20% capital gain election. When you complete Part II, you are electing to apply a 20% tax rate to the capital gain portion. See **Capital Gain Elections** below and Part III, line 1, instructions on page 3 for details.

2. 5- or 10-Year Averaging Methods. You can use Part III to choose the 5-year averaging method or Part IV to choose the 10-year averaging method to figure your tax on the lump-sum distribution. You can choose either method even if you make the 20% capital gain election described above or the Schedule D capital gain election described below. But if you receive more than one lump-sum distribution for the same employee in one tax year, you must use the same averaging method for all those distributions.

How To Report the Distribution

If you choose **not** to use Parts III or IV of Form 4972, report the ordinary income part of the distribution on Form 1040, lines 17a or 17b, or on Form 1041, line 8. If you do not use Part II of Form 4972 or make the Schedule D capital gain election, report the amount from Form 1099-R, Box 2, on Form 1040, lines 17a and 17b, or on Form 1041, line 8. Do not include on Form 1040, lines 17a and 17b, or Form 1041, line 8, any amount you use in any of the tax computations on Form 4972.

The entries in other boxes on Form 1099-R may also apply in completing Form 4972:

- Box 6, Net Unrealized Appreciation (NUA). See page 3 for details on how to treat this amount.
- Box 8, current actuarial value of an annuity.

If applicable, get the amount of Federal estate tax paid attributable to the taxable part of the lump-sum distribution from the administrator of the decedent's estate.

For more details, get Pub. 575.

How Often You Can Choose

If you choose either the 5- or 10-year averaging method or the 20% or Schedule D capital gain method for any lump-sum distribution received after 1986, you cannot choose any of these methods for any distribution received in a later year from a plan for the same employee.

If you make an election as a beneficiary of a deceased employee, it does not affect any election you can make for qualifying lump-sum distributions from your own plan. You can also make an election as the beneficiary for more than one qualifying person. For example: Your mother and father died and each was born before 1936 and was at least 50 years old at the date of death. Each had a qualifying plan for which you are the beneficiary. You also received a qualifying lump-sum distribution from your own plan and you were born before 1936. You may make an election for each of the above distributions; one for yourself, one as the beneficiary of your father, and one as the beneficiary of your mother. It does not matter if the distributions all occur in the same year or in different years.

Note: *An election on Form 4972 or Form 5544 for distributions received before 1987, while you were under age 59½, does not affect any election you can make for distributions received after 1986.*

When You Can Choose

Form 4972 can be filed with either an original or an amended return. Generally, you have 3 years from the later of the due date of your tax return or the date you filed your return to choose any of the methods.

Tax on Prior Year Lump-Sum Distributions

For distributions received before 1987, there was no limit to the number of times before age 59½ you could choose the special averaging methods on Form 4972 or Form 5544.

If you, as an employee, received a lump-sum distribution or an annuity contract in 1985 or 1986, and used Form 4972 or Form 5544 to compute the tax, add those distributions to your 1990 distribution and figure your tax on Form 4972 for 1990 using the combined distributions. From that result, subtract the tax you paid on the lump-sum distributions on Form 4972 or Form 5544 for the earlier years. Show the subtraction on the applicable line. For example, subtract the tax you paid for the earlier years from the tax reported on the combined distributions on Part III or Part IV, line 23.

Capital Gain Elections

Only the taxable amount of distributions applicable to pre-1974 participation qualify for capital gain treatment. The capital gain amount should be shown on Form 1099-R, Box 3. If there is an amount on Form 1099-R, Box 6, (net unrealized appreciation), part of it may also qualify for capital gain treatment. Use the NUA Worksheet on page 3, to figure the capital gain part of NUA and how to make the election to include NUA in your taxable income.

If your distribution includes capital gain, you can do one of the following: **(1)** make the 20% capital gain election in Part II of Form 4972, **(2)** make the Schedule D capital gain election on Schedule D (Form 1040), Part II, or **(3)** if you do not choose **(1)** or **(2)**, treat the capital gain as ordinary income.

Schedule D Capital Gain Election.— If you choose **(2)**, enter 50% (.50) of the amount from Form 1099-R, Box 3, plus 50% (.50) of any capital gain from NUA, on Schedule D (Form 1040 or 1041), Part II. Enter the rest of your distribution on Form 1040, lines 17a and 17b, or on Form 1041, line 8, unless the plan participant was born before 1936 (and, if deceased, was at least 50 years old at the date of death). In that case, you may enter the rest of your distribution (ordinary income) on Part III or IV, Form 4972, instead of on Form 1040 or 1041.

Net Unrealized Appreciation (NUA).—Normally, the net unrealized appreciation (NUA) in employer securities received in a lump-sum distribution is not taxable until the securities are sold. However, you can elect to include NUA in taxable income in the year received.

The total amount to report as NUA should be shown in Form 1099-R, Box 6. Part of the amount in Box 6 will qualify for capital gain treatment if there is an amount in Form 1099-R, Box 3, and you elect to include the NUA in current income.

To figure the total amount subject to capital gain treatment including the NUA, complete the NUA Worksheet below:

NUA Worksheet

(Do not complete if you do not make a capital gain election.)

A. Enter the amount from Form 1099-R, Box 3	
B. Enter the amount from Form 1099-R, Box 2	
C. Divide line A by line B and enter the result as a decimal	
D. Enter the amount from Form 1099-R, Box 6	
E. Multiply line C by line D and enter the result (NUA subject to capital gain treatment)	
F. Subtract line E from line D (NUA that is ordinary income)	
G. Add lines A and E (total part of distribution that can receive capital gain treatment)	

See the **Line-by-Line Instructions** for more specific information on line entries.

Line-by-Line Instructions

Name of Recipient of Distribution and Identifying Number.—At the top of Form 4972, fill in the name and identifying number of the recipient of the distribution.

If you received more than one qualifying distribution in 1990 for the same employee, add them and figure the tax on the total amount.

If you and your spouse are filing a joint return and each has received a lump-sum distribution, complete and file a different Form 4972 for each spouse's election, and combine the tax on Form 1040, line 39.

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the whole lump sum first. The trusts then share the tax in the same proportion that they shared the distribution.

If the distribution is made to more than one beneficiary, follow the instructions under **Multiple Recipients of a Lump-Sum Distribution** on page 4.

Part II

See **Capital Gain Elections** on page 2 before completing Part II.

Line 1.—Leave this line blank if your distribution does not include a capital gain amount, **or** you do not make the 20% capital gain election. Go on to Part III or IV.

To **make** the 20% capital gain election but **not take a death benefit exclusion** (see instructions for Parts III and IV, line 2), enter on line 1 the entire capital gain amount from Form 1099-R, Box 3. However, if you elect to include NUA in your taxable income, enter on line 1 the amount from line G of the NUA Worksheet on this page instead of the amount from Form 1099-R, Box 3. On the dotted line to the left of line 1, write "NUA" and the amount from line E of the NUA Worksheet.

To **make** the 20% capital gain election when you **are taking a death benefit exclusion,** figure the amount to enter on line 1 using the worksheet below:

Death Benefit Worksheet

A. Enter the capital gain amount from Form 1099-R, Box 3 (if you elected to include NUA in taxable income, enter the amount from line G of the NUA Worksheet)	
B. Enter the taxable amount from Form 1099-R, Box 2 (if you elected to include NUA in taxable income, add the amount from Form 1099-R, Box 6, to the amount from Form 1099-R, Box 2, and enter the result here)	
C. Divide line A by line B and enter the result as a decimal	
D. Enter the amount of the death benefit exclusion	
E. Multiply line D by line C	
F. Subtract line E from line A. Enter the result here and on line 1	

The balance of your allowable death benefit exclusion should be entered on line 2, Part III or IV, if you choose the 5- or 10-year averaging method.

If any Federal estate tax was paid on the lump-sum distribution, you must decrease the capital gain amount by the amount of estate tax applicable to it. To figure the amount, multiply the total Federal estate tax paid on the lump-sum distribution by the decimal amount from line C of the Death Benefit Worksheet. The result is the portion of the Federal estate tax applicable to the capital gain amount. Subtract that amount from the capital gain amount from Form 1099-R, Box 3, or from line F of the Death Benefit Worksheet, and enter the result on line 1. If you elected to include NUA in taxable income, subtract the portion of Federal estate tax applicable to the capital gain amount from the amount on line G of the NUA Worksheet. Enter the result on line 1. Enter the remainder of the Federal estate tax on line 11, Part III or IV.

Note: *If you take the death benefit exclusion AND Federal estate tax was paid on the capital gain amount, the capital gain amount must be reduced by both the above methods to figure the correct entry for line 1, Part II.*

Parts III and IV

Line 1.—If you **made the 20% capital gain election,** enter only the ordinary income from Form 1099-R on this line. To figure this amount, subtract Form 1099-R, Box 3, from Form 1099-R, Box 2. Enter the result on line 1. Add to that result the amount from line F of the NUA Worksheet if you included NUA capital gain in the 20% capital gain election.

If you **made the Schedule D capital gain election on Schedule D (Form 1040),** figure the amount to enter on line 1 this way:

1. Subtract Form 1099-R, Box 3, from Form 1099-R, Box 2.

2. Add the 50% of the amount on Form 1099-R, Box 3, that you could not use in the Schedule D capital gain election to the result in Step 1. If you did not include NUA in taxable income, enter the total on line 1.

3. If you included NUA capital gain in the long-term capital gain on Schedule D (Form 1040), enter on line 1 the total from Step 2 plus the unused 50% of the NUA capital gain (50% of line E of the NUA Worksheet) and the ordinary income portion of NUA (line F of the NUA Worksheet).

If you **did not make either capital gain election** and did not elect to include NUA in taxable income, enter the amount from Form 1099-R, Box 2. If you did not make either capital gain election, but did elect to include NUA in your taxable income, add the amount from Form 1099-R, Box 2, to the amount from Form 1099-R, Box 6. Enter the total on line 1.

Whenever you include NUA on line 1, on the dotted line to the left of line 1, write "NUA" and the amount of NUA included.

Note: *Community property laws do not apply in figuring tax on the amount you report on line 1.*

Line 2.—If you received the distribution because of the employee's death, you may be able to exclude up to $5,000 of the lump sum from your gross income. If you are filing for a trust and the trust shared the lump sum with other trusts, it will share the exclusion in the same proportion as it shared the distribution. This exclusion applies to the beneficiaries or estates of common-law employees, self-employed individuals, and shareholder-employees who owned more than 2% of the stock of an S corporation. Pub. 575 gives more information about the death benefit exclusion.

Enter the death benefit exclusion on line 2. But see the instructions for Part II, line 1, if you made a capital gain election.

Line 11.—A beneficiary who receives a lump-sum distribution because of an employee's death must reduce the taxable part of the distribution by any Federal estate tax paid on the lump-sum distribution. The reduction is made by entering on line 11 the Federal estate tax attributable to the lump-sum distribution. Also see the instructions for Part II, line 1.

Part III, Lines 14 and 20.—Use the following tax rate schedule to complete Part III, lines 14 and 20:

Tax Rate Schedule for Part III, Lines 14 and 20

If the amount on Part III, line 13 or 19, is:		Enter on Part III, line 14 or 20:	
Over—	*But not over—*		*Of the amount over—*
$–0–	$ 19,450	..... 15%	$–0–
19,450	47,050	$ 2,917.50 + 28%	19,450
47,050	97,620	10,645.50 + 33%	47,050
97,620	.....	27,333.60 + 28%	97,620

Parts III and IV, Line 16.—Decimals should be carried to five places and rounded to four places. Drop amounts 4 and under (.44454 becomes .4445). Round amounts 5 and over up to the next number (.44456 becomes .4446).

Part IV, Lines 14 and 20.—Use the following tax rate schedule to complete Part IV, lines 14 and 20:

Tax Rate Schedule for Part IV, Lines 14 and 20

If the amount on Part IV, line 13 or 19, is:		Enter on Part IV, line 14 or 20:	
Over—	*But not over—*		*Of the amount over—*
$–0–	$1,190	..... 11%	$–0–
1,190	2,270	$130.90 + 12%	1,190
2,270	4,530	260.50 + 14%	2,270
4,530	6,690	576.90 + 15%	4,530
6,690	9,170	900.90 + 16%	6,690
9,170	11,440	1,297.70 + 18%	9,170
11,440	13,710	1,706.30 + 20%	11,440
13,710	17,160	2,160.30 + 23%	13,710
17,160	22,880	2,953.80 + 26%	17,160
22,880	28,600	4,441.00 + 30%	22,880
28,600	34,320	6,157.00 + 34%	28,600
34,320	42,300	8,101.80 + 38%	34,320
42,300	57,190	11,134.20 + 42%	42,300
57,190	85,790	17,388.00 + 48%	57,190
85,790	.....	31,116.00 + 50%	85,790

Multiple Recipients of a Lump-Sum Distribution.—If you shared a lump-sum distribution from a qualified retirement plan when not all recipients were trusts (a percentage will be shown in Boxes 8 and/or 9, Form 1099-R), figure your tax on Form 4972 as follows:

Step 1.—Complete Parts I and II of Form 4972. (If you make the 20% capital gain election in Part II and also elect to include NUA in taxable income, see **Net Unrealized Appreciation (NUA)**, on page 3, to determine the amount of NUA that qualifies for capital gain treatment.)

Step 2.—Use this step **only** if you **do not elect to include NUA** in your taxable income or if you do not have NUA. If you elect to include NUA in taxable income, skip Step 2 and go to Step 3. (Box numbers used below are all from Form 1099-R.)

(a) If you do not make the capital gain election, divide the amount shown in Box 2 by your percentage of distribution shown in Box 9. Enter this amount on Form 4972, line 1, Part III or IV, as applicable.

(b) If you make the capital gain election, subtract the amount in Box 3 from the amount in Box 2. Divide the result by your percentage of distribution shown in Box 9. Enter the result on Form 4972, line 1, Part III or IV, as applicable.

(c) Divide the amount shown in Box 8 by the percentage shown in Box 8. Enter the result on Form 4972, line 4, Part III or IV, as applicable.

Step 3.—Use this step **only** if you **elect to include NUA** in your taxable income. (Box numbers used below are all from Form 1099-R.)

(a) If you do not make the capital gain election, add the amount shown in Box 2 to the amount shown in Box 6. Divide the result by your percentage of distribution shown in Box 9. Enter the result on Form 4972, line 1, Part III or IV, as applicable.

(b) If you make the capital gain election, subtract the amount in Box 3 from the amount in Box 2. Add to the result the amount from line F of your NUA Worksheet. Then divide the total by your percentage of distribution shown in Box 9. Enter the result on Form 4972, line 1, Part III or IV, as applicable.

(c) Divide the amount shown in Box 8 by the percentage shown in Box 8. Enter the result on Form 4972, line 4, Part III or IV, as applicable.

Step 4.—Complete Form 4972, Part III or IV, as applicable, through line 22.

Step 5.—Complete the following worksheet:

A. Enter your percentage of distribution from Form 1099-R, Box 9 .	_____
B. Enter the amount from line 22, Part III or IV, Form 4972	_____
C. Multiply line A by the amount on line B. Enter the result here . . .	_____
D. Enter the amount from Part II, line 2	_____
E. Add lines C and D. Enter the result here and on line 23, Part III or IV, Form 4972 . .	_____

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